

**AGRICULTURAL LAND PRESERVATION PROGRAM
STATEMENT OF REVENUES,
EXPENDITURES, AND FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 1997**



OFFICE OF THE COUNTY AUDITOR

Ronald S. Weinstein, CPA
County Auditor

March 1998

Mr. Lewis R. Riley, Secretary
State of Maryland, Department of Agriculture

Pursuant to Section 212 of the Howard County Charter and in response to your Department's request, we have completed a review of the cash receipts and disbursements of the

HOWARD COUNTY, MARYLAND AGRICULTURAL LAND PRESERVATION PROGRAM

for the fiscal year ended June 30, 1997. Our report included a review of legislation relating to Agricultural Tax Revenues to determine the County's compliance thereto. It is our opinion that the Howard County Agricultural Land Preservation Program is operated in accordance with all applicable State and Local guidelines and that internal controls in place are adequate to ensure the proper recognition and collection of Maryland Agricultural Transfer Tax.

We wish to express our gratitude to the staffs of the Agricultural Land Preservation Program, the Howard County Office of Law, the Departments of Finance and Planning & Zoning and the Maryland State Department of Assessments & Taxation for the cooperation and assistance extended to us during the course of this engagement.

Ronald S. Weinstein, CPA
County Auditor

Stephen E. Peters, Jr., CPA
Auditor-in-Charge

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INTRODUCTION AND SCOPE

In response to a request from the State of Maryland Department of Agriculture, our audit was conducted to determine the following:

- The fund balance of the Agricultural Land Preservation Fund
- The amount of Agricultural Tax Revenues collected by Howard County
- The amount of Agricultural Tax Revenues forwarded from Howard County to the State of Maryland
- The amount of funds expended from Agricultural Tax Revenues and the purpose of those expenditures
- Compliance with the State's "three year rule" relating to the expenditure of Agricultural Tax Revenues
- Adequacy of internal controls over the recognition and collection of Agricultural Tax Revenues

Howard County also designates 25% of its local Transfer Tax for Agricultural Preservation purposes and includes these amounts, along with the State Agricultural Transfer Tax Collections, in the County's Agricultural Land Preservation Fund. We therefore reviewed the collections and expenditures of the fund as a whole, and performed specific audit steps relating to the percentages and rules pertaining to State Agricultural Tax Revenues.

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REVENUES (NOTE 1)

Local Transfer Taxes (NOTE 2)	\$2,807,126	
Interest on Investments	1,047,109	
State Agricultural Transfer Tax (NOTE 3)	847,663	
Application Fees (NOTE 4)	<u>(200)</u>	
		\$4,701,698

EXPENDITURES

Administration		\$265,668	
Overhead		101,790	
Principal Payments on Development Rights Debt (NOTE 6)	\$117,000		
Interest on Development Rights Debt (NOTE 6)	3,859,066		
Development Rights Repurchased by Landowner (NOTE 5)	<u>(36,000)</u>	3,940,066	
Agricultural Transfer Tax Remitted to State Comptroller (NOTE 3)		<u>211,916</u>	
			<u>4,519,440</u>

Excess (Deficiency) of Revenues over Expenditures	\$182,258
Fund Balance, July 1, 1996	<u>\$16,245,836</u>
Fund Balance, June 30, 1997	<u><u>\$16,428,094</u></u>

The accompanying NOTES are an integral part of this financial statement.

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NOTES TO THE FINANCIAL STATEMENTS

NOTE:

1. The revenues accumulated in the Howard County Agricultural Fund represent receipts from both the State Agricultural Transfer Tax and a portion of the County's Local Transfer Tax. Also included in the revenues are interest related to the above taxes and application fees collected. The expenditures in this fund are charged against the accumulated revenues received and represent the expenditures of the Agricultural Land Preservation Program.
2. Howard County has designated 25% of its annual local Transfer Tax to the Agricultural Land Preservation Program.
3. In accordance with Article 13, Section 301 - Agricultural Land Transfer Tax, Tax Property Article of the Annotated Code of Maryland: the County collected \$847,663 of State Agricultural Transfer Tax during the year ended June 30, 1997. The activity specifically related to these State Agricultural Transfer Tax collections is summarized as follows:

Balance - June 30, 1996	\$	0
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ADD:

Revenue

State Agricultural Transfer Tax:
July 1, 1996 - June 30, 1997

847,663

TOTAL REVENUES THROUGH 6/30/97	\$	847,663
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LESS:

Expenditures

Transfer Tax Remitted to State	\$	211,916
Principal Payments on Development Rights Debt (Note 6)		117,000
Interest on Development Rights Debt (Note 6)		3,859,066
Development Rights Repurchased by Landowner (Note 5)		<u>(36,000)</u>

TOTAL EXPENDITURES		<u>4,151,982</u>
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Balance - June 30, 1997 (cannot be less than zero)	\$	<u>0</u>
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4. Formerly, Howard County charged a fee of \$200 for each application filed under its program. This fee was refunded if and when an agreement was reached to include the land in the Agricultural Land Preservation Program. Council Bill #10-1993, effective May 1, 1993, changed this to a non-refundable fee.
5. There is a provision in the Agricultural Land Preservation Program which allows landowners to set aside up to one acre of land for each of their children so that they can build a house on that land. During FY 1997, three landowners exercised that option on land which had been put into the program and reimbursed the County for the amount which was received.
6. The Agricultural Land Preservation Program currently in effect in Howard County has been established to allow landowners to sell the development rights on their land to the County. The County gives the landowner an installment purchase agreement, which is in the form of a bond, whereby the County agrees to make semi-annual interest payments on the principal balance for thirty years. Most of the principal is paid in a balloon payment at the end of the thirty years. However, there are some relatively small principal payments made over the course of the thirty-year period because the Howard County Charter requires that principal payments must be made at least once every two years. The total principal debt amount at June 30, 1997 is \$51,744,000. This is classified as a long-term debt of Howard County. When the agreement is approved, the County purchases a zero-coupon bond which will earn interest and grow until it is equal to the balloon payment when it matures in thirty years. The purchase price of the zero-coupon bonds and the amount of interest earned to date are both included in the Agricultural Land Preservation Program fund balance. The fund balance also includes some accrued interest payable on the installment purchase agreements since February 15, 1997, which becomes payable on August 15, 1997. The amounts of the fund balance at June 30, 1997, which are committed to the holders of the installment purchase agreements are:

Zero-Coupon Bonds	\$5,197,238
Interest on Zero-Coupon Bonds	2,356,173
Accrued Interest Payable on 8/15/97	<u>1,505,339</u>
Total	<u>\$9,058,750</u>

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COMMENTS

Upon request, the State Department of Assessments and Taxation (SDAT) furnished us with a copy of the Annual Agricultural Transfer Tax Report (AIMS 21) sent to the State Comptroller. This report indicated that the total Agricultural Transfer Tax collected for parcels that are not entirely wooded amounted to \$843,663. This amount is \$4,000 less than our monthly reports to the SDAT, but agrees with an internal report generated by the Department of Finance. We researched our receipts for the entire fiscal year and found that the correct amount was \$847,663. We noted that an internal report did not account for one receipt of \$4,000. It appears that this was missed since it was virtually identical to another receipt paid the same day. The property owner, the acreage, the consideration and the amount of tax were identical, but they were for two separate pieces of property. However, since the County has accounted for the difference correctly in their reports to SDAT and has remitted the correct amount to the State, we believe no further action is required.

The Report of Collection of Agricultural Transfer Tax for June 1997 is incorrect. The amount shown as Administrative Expenses is \$203.16, which is too low. The actual amount was \$26,741.36, bringing the fiscal year to date amount to \$367,458.59. Our Department of Finance is aware of this error and will be submitting an adjusted report. Accordingly, no recommendation is considered necessary at this time.